

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 FAA-00 L-03 /030 W

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R 151122Z MAR 76 ZDK-MCN RPTD MISSING

FM AMEMBASSY KABUL

TO SECSTATE WASHDC 6625

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E. O. 11652: GDS

TAGS: EAIR, EINV, US, AF

SUBJECT: PANAM-ARIANA RELATIONS

REF: 75 STATE 253214

1. SUMMARY: ERSKINE RICE AND CHARLES TRIPPE OF PANAM VISITED KABUL EARLY MARCH TO ATTEND ARIANA BOARD MEETING AND TO HOLD DISCUSSIONS IN CONNECTION WITH ON-GOING PROBLEMS BETWEEN PANAM AND ARIANA. MAJOR PROBLEMS REMAIN UNRESOLVED, BUT A NUMBER OF INTERIM ACTIONS WERE TAKEN TO LEAVE THE SITUATION CONSIDERABLY IMPROVED. ARIANA NOW HAS A COMPTROLLER, A SMALL DIVIDEND WAS DECLARED, AND THERE WAS A MEETING OF MINDS BETWEEN PANAM AND SULTAN GHAZI, ARIANA BOARD CHAIRMAN, ABOUT OTHER PROBLEMS WHICH GIVE PROSPECTS FOR FURTHER ACTIONS TO RESOLVE PROBLEMS. END SUMMARY.

2. AMBASSADOR MET WITH ERSKINE RICE AND CHARLIE TRIPP, PAN AMERICAN VICE PRESIDENTS, AND CHARLIE BENNETT, ARIANA EXECUTIVE VICE PRESIDENT AND PANAM OFFICER, ON MARCH 6 TO REVIEW SITUATION BETWEEN ARIANA AND PANAM. THEY STATED THAT ARIANA PERSONNEL MORALE WAS EXTREMELY POOR, DUE TO INTERFERENCE BY ARIANA PRESIDENT NAJEEB IN OPERATIONS OF VARIOUS DEPARTMENTS. THEY FURTHER STATED THAT ARIANA'S BOOKS WERE NOT KEPT IN ACCORDANCE WITH NORMAL AIRLINE PRACTICES, AND WERE A MESS. PANAM WAS STILL INSISTING ON A "SUBSTANTIAL" DIVIDEND FROM ARIANA, ON THE REINSTATEMENT OF MR. HAZRAT AS ARIANA'S COMPTROLLER, AND WAS OPPOSED

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HQ THE CURRENT ACQUISITION AT THE PRESENT TIME OF A WIDE-

BODIED AIRCRAFT BY ARIANA. THEY EXPRESSED THE OPINION THAT FUTURE PROSPECTS FOR ARIANA WERE EXTRMELY POOR UNLESS NAJEEB WAS REMOVED, BUT FEARED THAT BOARD CHAIRMAN SULTAN GHAZI DID NOT HAVE ENOUGH POWER TO FORCE NAJEEB'S OUSTER. THEY ALSO EXPRESSED CONCERN ABOUT THE FAILURE OF PRESIDENT NAJEEB TO AUTHORIZE A REPLACEMENT FOR THE RECENTLY DEPARTED, PAN AM SUPPLIED, AIRCRAFT MAINTENANCE SUPERVISOR. THEY STATED THAT, UNLESS THINGS IMPROVED, THEY WOULD BE WORRIED ABOUT CONTINUING PANAM'S PARTICIPATION IN ARIANA.

3. ON MARCH 9, CHARLIE BENNETT AND GLEN LLOYD RETURNED TO ADVISE THE EMBASSY OF THE RESULTS OF THE ARIANA BOARD MEETING. MR. BENNETT INTRODUCED MR. LLOYD AS THE NEW INTERIM COMPTROLLER, APPOINTED AT THE MEETING. MR. LLOYD WAS PREVIOUSLY THE HEAD OF THE INTERNAL AUDIT OFFICE AT PANAM HEADQUARTERS AND WILL BE A TEMPORARY COMPTROLLER, FOR ABOUT THREE TO SIX MONTHS, PENDING POSSIBLE REINSTATEMENT OF HAZRAT. MR. BENNETT STATED THAT THE MEETING WENT VERY WELL. THE PANAM REPRESENTATIVES EXPRESSED THEIR CONCERN ABOUT ACCOUNTING PROCEDURES, WHICH, BY MAINTAINING EXCESSIVE RESERVES, HAD REDUCED THE AIRLINES NET WORTH FROM AN ESTIMATED AFS 200 MILLION TO AFS 49 MILLION (AT AFS 45 - \$1, \$4.5 TO \$1.1 MILLION). THE BOARD HAD VOTED TO INSTITUTE NORMAL AIRLINE ACCOUNTING PROCEDURES. SULTAN GHAZI HAD EXPRESSED HIS CONCERN THAT DECLARING A DIVIDEND WOULD CAUSE THE GOVERNMENT OF AFGHANISTAN (GOA) TO FORCE PAYMENT OF THE TURNOVER TAX LONG OPPPOSED BY

ARIANA (AN ESTIMATED AFS 95 MILLION MAY BE DUE THE GOA), BUT THE BOARD HAD VOTED A SMALL DIVIDEND (AFS 400/Sshare, OR AN ESTIMATED \$107,000 TO PANAM) PLUS A CONTINUING ANNUAL DIVIDEND SUBJECT TO AN ARIANA RESERVE OF AFS 35 MILLION. THIS GOES A LONG WAY TOWARD SATISFYING PANAM. THE PANAM REPRESENTATIVES PROPOSED THAT THE DIVIDEND DUE THE GOA BE OFFSET AGAINST THE APPROXIMATELY AFS 17 MILLION OWED ARIANA BY VARIOUS GOA OFFICES, DCT THIS WAS NOT DECIDED. SULTAN GHAZI FORCED PRESIDENT NAJEEB TO ACCOUNT FOR HIS DISMISSAL OF THE COMPTROLLER, HAZRAT, WITHOUT CONSULTING GHAZI OR THE BOARD. NAJEEB HAD REPLIED, BUT ACCORDING TO BENNETT, RECEIVED LITTLE SYMPATHY FROM THE BOARD. GHAZI ORDERED THAT WHEN HAZRAT RECEIVES HIS FINAL CLEARANCE

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FROM THE MINISTRY OF JUSTICE FOR THE CHARGES BROUGHT AGAINST HIM BY NAJEEB, THAT THE PAPERS SHOULD BE BROUGHT TO HIM, GHAZI, FOR DETERMINATION OF THE CASE. (ACCORDING TO BENNETT, THIS PROBABLY MEANS REINSTATEMENT.) IN THE MEANTIME, LLOYD WAS APPOINTED AS COMPTROLLER. THE ARIANA ANALYSIS OF THE NEED FOR A NEW PLANE WAS PRESENTED, WHICH ACCORDING TO BENNETT, CLEARLY SHOWS THAT A SMALLER PLANE WOULD BE SOON INADEQUATE FOR ARIANA, BHT THE BOARD DEFERRED ANY DECISION

ON PURCHASE OF A WIDE-BODIED JET. BENNETT'S PROPOSAL TO HIRE SOME INDIAN CPA'S TO BRING THE BOOKS UP TO DATE WAS APPROVED, AS WELL AS AUTHORITY TO DIRECT-HIRE ADDITIONAL PERSONNEL IN THE ACCOUNTING DEPARTMENT. PANAM RECEIVED APPROVAL TO ADD TWO HONORARY DIRECTORS TO THE BOARD, TO MATCH EXISTING HONORARY DIRECTORS FROM THE GOA. GHAZI EXPRESSED SOME CONCERN THAT FRANK GURNEY, PANAM REPRESENTATIVE IN IRAN, WAS NAMED INSTEAD OF A PANAM HEADQUARTER'S OFFICER, BUR GURNEY'S NAME WAS APPROVED.

4. CONCLUSION. A NUMBER OF PROBLEMS REMAIN. THE PANAM OFFICIALS ASKED THE AMBASSADOR IF THERE WAS ANY INFLUENCE HE COULD BRING TO BEAR TO CAUSE NAJEEB'S OUSTER, PRESUMABLY BY PROMOTION SO SOME OTHER JOB, AS THEY RETAIN THEIR LONG-TERM FEARS ABOUT THE VIABILITY OF ARIANA WITH NAJEEB. THEY ARE ALSO CONCERNED ABOUT MAINTENANCE WITHOUT A PANAM SUPERVISOR. THE DIVIDEND, WHILE PLEASING, IS SMALL, AND THREATENS POSSIBLE RETROACTIVE IMPOSITION BY THE GOA OF A TURNOVER TAX ON ARIANA. PROSPECTS FOR GROWTH OF THE AIRLINE ARE LIMITED BY EMPLOYEE MORALE PROBLEMS AND BY LACK OF ABILITY OF SENIOR OFFICIALS IN THE AFGHAN TOURIST OFFICE, ESSENTIAL FOR EXPANSION OF ARIANA'S TOURIST PASSENGER LOAD. HOWEVER, TRIPPE AND RICE LEFT FEELING THAT THERE HAD BEEN A DEFINITE IMPROVEMENT AND THAT PROSPECTS FOR EVENTUAL RESOLUTION OF ARIANA'S PROBLEMS WERE BETTER. AMBASSADOR TOLD THEM HE WAS PLEASED AT PROGRESS MADE DURING THEIR VISIT BUT CAUTIONED IT WOULD BE DIFFICULT FOR HIM TO CRITICIZE NAJEEB WITHOUT IMPLYING CRITICISM OF GHAZI WHICH HE WOULD NOT WISH TO DO. IN ADDITION, NAJEEB IS SON-IN-LAW OF GENERAL HAIDER, RECENTLY APPOINTED CHIEF OF THE GENERAL STAFF.

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